



MATTHEW G. BEVIN
GOVERNOR

EXECUTIVE ORDER

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Secretary of State
Frankfort
Kentucky

2016-340
June 17, 2016

ALISON LUNDERGAN GRIMES
SECRETARY OF STATE
COMMONWEALTH OF KENTUCKY
BY R. Adler

**RELATING TO THE REORGANIZATION OF THE
KENTUCKY RETIREMENT SYSTEMS BOARD OF TRUSTEES
AS THE KENTUCKY RETIREMENT SYSTEMS BOARD OF DIRECTORS**

WHEREAS, the Commonwealth of Kentucky should promote the effective and efficient management of state government operations; and

WHEREAS, it is the responsibility of state government to provide the citizens of the Commonwealth with an economical and efficient governmental structure that can be administered in a consistent, ethical, and coordinated manner; and

WHEREAS, the Kentucky Employees Retirement System, the State Police Retirement System, and the County Employees Retirement System are programs that have provided benefits to retirees and should be in a solid position to do the same for future retirees; and

WHEREAS, these three systems are administered under one administrative agency known as the Kentucky Retirement Systems which is also responsible for the administration of retiree health benefits for members of these systems as well as disability and death benefits; and

WHEREAS, pursuant to KRS 61.645, the Kentucky Retirement Systems is currently overseen, governed and administered by a Board of Trustees consisting of thirteen (13) members, including the Personnel Cabinet Secretary, elected representatives from all three retirement systems, and specific appointments by the Governor; and

WHEREAS, increasing medical costs and market changes have substantially increased the costs of the long-term obligations of our retirement programs; and

WHEREAS, actuarial reports have demonstrated a significant increase in the Unfunded Actuarial Accrued Liability of the Kentucky Employees Retirement System,



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the State Police Retirement System, and the County Employees Retirement System due in part to different accounting methods required by the Governmental Accounting Standards Board; and

WHEREAS, as Governor, I fully recognize the Commonwealth's obligation to fulfill the expectations of current retirees and employees participating in the Kentucky Employees Retirement System, the State Police Retirement System, and the County Employee Retirement System, as well as the commitment to ensure that Kentucky state government, municipalities, local school districts and other affected entities are able to remain solvent while attempting to offer competitive retirement benefits in the future; and

WHEREAS, in February 2016 the Pew Charitable Trusts released a research brief recommending state public pension systems to adopt specific steps to improve greater transparency through greater disclosure including:

- (i) Adopting comprehensive fee-reporting standards;
- (ii) Making investment policy statements transparent and accessible;
- (iii) Disclosing bottom-line performance, both net and gross of fees;
- (iv) Expanding reporting to include longer-term performance results;
- (v) Reporting results by asset class, net and gross of fees; and

WHEREAS, Kentucky's pension stakeholders and general public would benefit from more accessible information related to the management and oversight of Kentucky's public pension systems; and

WHEREAS, the three systems administered by the Kentucky Retirement Systems Board of Trustees have not consistently been administered in the open, transparent and expert manner that current and future retirees, employees and citizens of Kentucky deserve and expect; and



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WHEREAS, in order to more efficiently and better carry out the management, operation and oversight duties and responsibilities of the Kentucky Retirement Systems, including the enhancement of investment experience among the members of its governing board and to achieve better administration, I have determined that said governing board established by the provisions of KRS 61.645 should be expanded to include additional gubernatorial appointees having investment experience for the purpose of achieving greater expertise, economy, efficiency, transparency and improved administration of the Kentucky Retirement Systems; and

WHEREAS, I have determined that the Kentucky Retirement Systems Board of Trustees, as established by the provisions of KRS 61.645, should be abolished, recreated, and restructured with a more focused and expert vision and purpose designed to carry out the objectives of honoring the expectations of current retirees and employees participating in the Kentucky Employees Retirement Systems, as well the commitment to ensure that Kentucky state government, municipalities, local school districts and other affected entities are able to remain solvent and, therefore, reorganization efforts should be taken immediately in order to promote and achieve greater transparency, economy, efficiency, expertise and improved oversight over, and administration of, the Kentucky Retirement Systems:

NOW, THEREFORE, I, Matthew G. Bevin, Governor of the Commonwealth of Kentucky, under the authority vested in me by the Kentucky Constitution, Sections 69 and 81, and KRS 12.028, do hereby Order and Direct the following:

- I. The Kentucky Retirement Systems Board of Trustees as established by KRS 61.645 is abolished. The terms of the members appointed by the Governor and serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order shall expire immediately upon the filing of this Order, except as hereinafter expressly provided.



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- II. The Kentucky Retirement Systems Board of Directors (“Board”) is hereby recreated and established as an agency of state government charged with the responsibility of securing, managing and overseeing the combined retirement systems in a fiduciary capacity.
- III. The Board shall consist of the following:
- A. The Secretary of the Personnel Cabinet;
 - B. Three (3) trustees, who shall be members or retired from the County Employees Retirement System, elected by the members and retired members of the County Employees Retirement System. The terms of the members who were elected and serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order shall continue in accordance with the terms of their election.
 - C. One (1) trustee, who shall be a member of or retired from the State Police Retirement System, elected by the members and retired members of the State Police Retirement System, respectively. The term of the member who was elected and serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order shall continue in accordance with the term of his or her election.
 - D. Two (2) trustees, who shall be members of or retired members from, the Kentucky Employees Retirement System, elected by the members and retired members of the Kentucky Employees Retirement System, respectively. The terms of the members who were elected and serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order shall continue in accordance with the terms of their election.
 - E. Ten (10) trustees, appointed by the Governor. Of the ten (10) trustees appointed by the Governor:
 - 1. One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky League of Cities. The term of the member who was serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order, James A. Fulkerson, shall continue in accordance with the terms of his appointment, to-wit; until July 1, 2017. The term of such member shall expire upon the end of his current term and his successor shall be appointed by the Governor upon submission of a list of three (3) nominees submitted by the Kentucky League of Cities;
 - 2. One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky Association of Counties. The term of the member who was serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order, Randy K.



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Stevens, shall continue in accordance with the terms of his appointment, to-wit; until July 1, 2017. The term of such member shall expire upon the end of his current term and his successor shall be appointed by the Governor upon submission of a list of three (3) nominees submitted by the Kentucky Association of Counties;

3. One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky School Boards Association. The term of the member who was serving on the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order, Joseph L. Hardesty, shall continue in accordance with the terms of his appointment; to-wit; until July 1, 2017. The term of such member shall expire upon the end of his current term and his successor shall be appointed by the Governor upon submission of a list of three (3) nominees submitted by the Kentucky School Board Association; and
 4. One (1) trustee shall be knowledgeable about the impact of pension requirements upon local governments;
 5. Six (6) trustees shall have investment experience. For purposes of this subparagraph, a trustee with "investment experience" means an individual who does not have a conflict of interest, as provided by KRS 61.655, and who has at least ten (10) years of experience in one (1) of the following areas of expertise:
 - a. A portfolio manager acting in a fiduciary capacity;
 - b. A professional securities analyst or investment consultant;
 - c. A current or retired employee or principal of a trust institution, investment or finance organization, or endowment fund acting in an investment-related capacity;
 - d. A chartered financial analyst in good standing as determined by the CFA Institute;
 - e. A university professor who teaches economics or investment-related studies; or
 - f. Any other professional with exceptional experience in the field of public or private finances.
- IV. The seven (7) at-large members of the Board appointed by the Governor shall serve for a term of four (4) years, except that of the members named in Section V., below, four (4) shall serve for a term of three (3) years and three (3) shall serve for a term of two (2) years. Any member of the Board appointed to fill a vacancy occurring for any reason other than by expiration of a term shall be appointed for the remainder of the unexpired term. A majority of the voting members of the Board shall constitute a quorum for the transaction of business. Members shall receive no compensation for serving on the Board, but shall be reimbursed for travel expenses for attending meetings and performing other official functions, consistent with the reimbursement policy for state employees.



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- V. In addition to the aforementioned appointed members, I hereby appoint the following as members of the Board pursuant to Subsections E. 4 and E. 5, of Section III, above:
- A. John R. Farris, of Lexington, Kentucky, to serve for a term of three (3) years. Said term will expire on June 17, 2019.
 - B. David L. Eager, of Louisville, Kentucky, to serve for a term of three (3) years. Said term will expire on June 17, 2019.
 - C. Mark W. Lattis, of Louisville, Kentucky, to serve for a term of three (3) years. Said term will expire on June 17, 2019.
 - D. William S. Cook, of Louisville, Kentucky, to serve for a term of three (3) years. Said term will expire on June 17, 2019.
 - E. David L. Harris, of Nicholasville, Kentucky, to serve for a term of two (2) years. Said term will expire on June 17, 2018.
 - F. Neil P. Ramsey, of Louisville, Kentucky, to serve for a term of two (2) years. Said term will expire on June 17, 2018.
 - G. John E. Chilton, of Louisville, Kentucky, to serve for a term of two (2) years. Said term will expire on June 17, 2018.
- VI. The Governor shall appoint one (1) member to serve the Board's Chairperson and one member to serve as Vice Chairperson with authority to act as the Chairperson in the absence of the Chairperson or if the office of the Chairperson is vacant. The Chairperson and Vice Chairperson shall serve at the pleasure of the Governor. I hereby appoint John Farris to serve as Chairperson and David L. Eager to serve as Vice-Chairperson.
- VII. Except as otherwise provided herein, the Board shall have all powers held by the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order, which powers are hereby transferred to the Board.
- VIII. Except as otherwise provided herein, the Board shall have exclusive control and direction over all duties, functions, and responsibilities previously exercised by the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order. All authority, functions, and responsibilities vested in the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order are transferred to the newly created Board, which shall utilize that authority, function, and responsibility to carry out the functions of the Board. All duties, functions, responsibilities, records, equipment, staff, and supporting budgets of the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order and all



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functions, rights, powers, duties, and obligations set forth in KRS 61.510 through 61.705 and other relevant provisions of law are hereby transferred to the Board.

- IX. To carry out the functions relating to its duties and responsibilities, the Board shall appoint an Executive Director who shall be approved by the Governor and who shall serve at the pleasure of the Board. The Board shall set the qualification and salary for the position of Executive Director under the provisions of KRS 64.640.
- X. The Executive Director shall be responsible for the following:
- A. The day-to-day operations of the Board;
 - B. Preparing annual reports of the Board's program of work;
 - C. Carrying out policy and program directives of the Board;
 - D. Preparing and submitting to the Board for its approval a proposed biennial budget of the Board; and
 - E. Performing all other duties and responsibilities assigned by the Board or by law.
- XI. Effective ninety (90) days from the date of this Order, all employees of the systems, except for the Executive Director, shall be subject to the state personnel system established pursuant to KRS 18A.005 to 18A.204 and shall have their salaries determined by the Secretary of the Personnel Cabinet.
- XII. All individuals associated with the investment and management of retirement system assets, whether contracted investment advisors, board members, or staff employees, shall adhere to "The Code of Ethics and Standards of Professional Conduct," the "Asset Manager Code of Professional Conduct" if the individual is managing retirement system assets, and the "Code of Conduct for Members of a Pension Scheme Governing Body" if the individual is a board member, promulgated by the CFA Institute.
- XIII. Effective July 1, 2016, in addition to any currently required disclosures, the Board shall direct the Executive Director to post the following information to the retirement systems' web site:
- A. All investment holdings and fees and commissions for each fund administered by the Board. The Board shall update the list of holdings and fees and commissions on a quarterly basis. Investment holdings, fees and commissions shall be disclosed by each individual manager, including underlying individual managers in fund and funds and individual underlying holdings, and investment fees and commissions shall include



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any profit sharing, carried interest, or any other partnership incentive arrangements or agreements.

- B. All contracts or offering documents for services, goods, or property purchased or utilized by the systems.
- XIV. With approval of the Board, the Executive Director may enter into agreements with any state agency or political subdivision of the state, any postsecondary education institution, or any other person or entity to enlist assistance to implement the duties and responsibilities of the Board.
- XV. The Board shall have the power to promulgate administrative regulations. All administrative regulations promulgated under the authority of the Kentucky Retirement Systems Board of Trustees as it existed prior to the filing of this Order and in effect prior to the filing of this Order shall remain in full force and effect and shall be administered by the Board until changed and re-promulgated by the Board.
- XVI. The Finance and Administration Cabinet, the Personnel Cabinet, the Governor's Office of Policy and Management and all other agencies necessary to effectuate this Order shall take all necessary action to do so.

Please issue Commissions to Board members hereby appointed.


MATTHEW G. BEVIN, Governor
Commonwealth of Kentucky


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REORGANIZATION PLAN

It is the policy of this Administration to provide the citizens of this Commonwealth with an economical and efficient governmental structure, as well as regulatory practices that are administered in a consistent, ethical and coordinated manner. Therefore, pursuant to the provisions of KRS 12.028, the Governor hereby implements this Executive Order which temporarily reorganizes a state government board until subsequent ratification or non-ratification by the Kentucky General Assembly.

SUMMARY OF PLAN

This Executive Order abolishes the Kentucky Retirement Systems Board of Trustees and creates the Kentucky Retirement Systems Board of Directors ("Board") with a new and more efficient governing membership, with increased expertise in the area of investment experience and a more focused vision and purpose designed to carry out the statutory mandates established for the Board, as well as the obligations and commitments it has to the people of Kentucky. It increases the gubernatorial appointive membership from 6 to 10 members. The additional members must have investment experience. As a result, greater economy, efficiency, transparency and improved administration of the Board of Kentucky Retirement Systems and its affairs will be achieved.

The foregoing changes are needed in order to promote greater economy, efficiency and improved administration.

PERSONNEL IMPACT

Including the increase in the number of members on the recreated Board, this reorganization is for administrative purposes with no resulting personnel impact and will not result in any increased personnel or other expenditures to Kentucky State Government or the University.

FISCAL IMPACT

The budget and personnel expenditures for the newly created Board will be essentially the same as those of the former Board. No fiscal increases are anticipated.